

ICPS newsletter®

Anniversary issue!

A 9-year salute to Ukraine: 400 weeks of coverage

In honor of its 400th issue, the ICPS Newsletter this week presents an 8-page wrap-up of the highlights of the last nine years. The weekly bulletin of the International Centre for Policy Studies is an information bridge between the Centre and those who use ICPS materials in their work. The Newsletter not only informs readers about current research, projects and events at the Centre. By following the life of the Centre, the Newsletter moves in unison with Ukrainian and international events, reporting on and analyzing them with professional opinion, analysis and comments. This issue talks about what the ICPS Newsletter's materials are based on and summarizes what issues were record-breakers in terms of downloads from the ICPS site



A regular messenger

ICPS adopted the practice of ongoing communication with its clients and partners and, starting in 1999, began to inform them on a regular basis. The initiator of the weekly newsletter was Vira Nanivska, the ICPS Director from 1997 to 2005.

Ms. Nanivska saw this publication not just as an informational bulletin, but as an important source of ideas and opinions that could help specialists form strategic

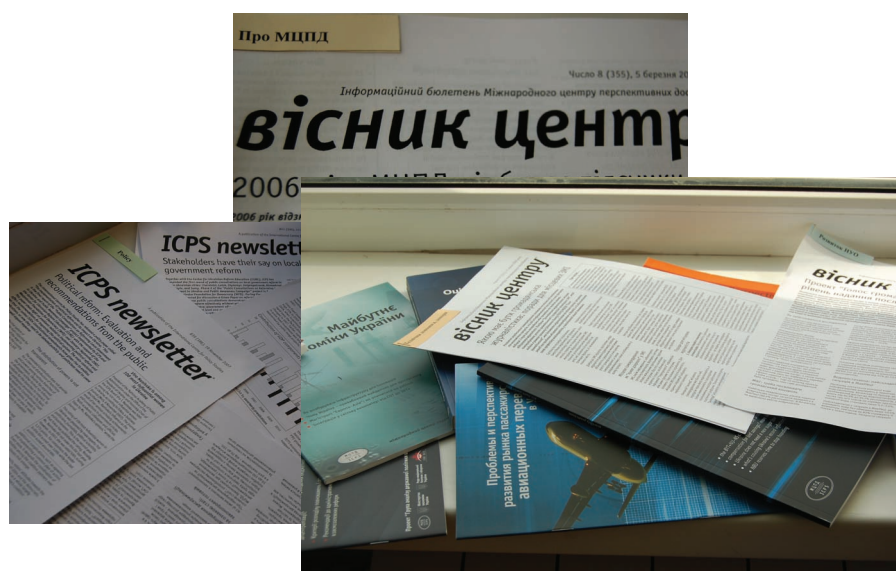
decisions. "Each issue of the Newsletter must contain a message," she said, establishing the main rule that Newsletter editors and authors continue to be guided by to this day.

Current ICPS Director Volodymyr Nikitin calls the Newsletter "a living record of the Centre's activity, a kind of corporate memory. It organizes our opinions on the Centre and is a tool for change in Ukrainian society."

An informative companion

By standard definition, a newsletter is an informative bulletin providing the main news of an organization that is distributed regularly among insiders. Such bulletins are rarely part of the activities of Ukrainian think-tanks.

For leading think-tanks in the West, however, newsletters are a small but essential component of their activities. For example, leading European think-tanks like the Centre for European Policy Studies and the UK-based Centre for the Study of Globalisation and Regionalisation at the University of Warwick publish monthly newsletters.



Events that affected economic and political processes in Ukraine

The pages of the Newsletter regularly present comments and research in response to Ukrainian realities. Two of our specialists, senior economist Ildar Gazizullin and political analyst Ivan Presniakov have selected those events that have had a determining—both positive and negative—effect on the development of Ukraine's economy and politics

1999–2008: Milestones in Ukraine's economy

Senior economist **Ildar Gazizullin** looks at 10 events in chronological order, events that offer the best roadmap to how the country's economy has developed and various trends. There are few government decisions in this list, as there were effectively no reforms that had a significant impact on the country's economy during 1999–2008. Over this period, the poor quality of public administration had in little impact on economic processes. Indeed, growing steel prices and droughts had a more significant impact on Ukraine's economy and the well-being of ordinary Ukrainians. According to Mr. Gazizullin, every single Ukrainian Government has taken advantage of positive economic trends to rapidly increase social benefits in order to gain voter support. At the same time, they have avoided unpopular but much-needed reforms, and this poses a risk to the country's further development, says Mr. Gazizullin.

1. The end of tolling schemes. In 1999, the Government banned tolling schemes, which accounted for more than 50% of all payment transactions in Ukraine's economy at that time. In this environment of a "virtual" economy, the country suffered the shadow privatization of state assets and the establishment of financial and industrial groups headed by ultra-wealthy individuals. But the Yushchenko–Tymoshenko team responded strongly to restrict tolling schemes in 2000. This had a positive impact on the economy, strengthening the financial position of the energy sector in particular, improving public finance and increasing household incomes. However, the problem of opaque business activity is still critical in Ukraine, as the shadow economy continues to account for up to 40% of GDP, providing fertile ground for corruption in all areas of life.

2. Qualitative improvements in statistical accounting. In 1999, Derzhkomstat, the state statistics agency, began actively instituting the Classification of Types of Business Activity and the System of National Accounts. This was important to enable both the Government and the private sector to

make informed decisions. In Ukraine, the statistics during the period 1991–1999 were extremely unreliable, not only due to hyperinflation, but also because of the soviet system of economic planning and reporting. Users continued to face the problem of authenticity and comparability of a wide range of statistical data because Derzhkomstat lacked technical and financial capacities.

3. The economy turns around. After a steep fall in GDP during 1990s, economic growth was registered for the first time in 2000. This was thanks to reforms that were implemented at that time by the Yushchenko Government and a favorable situation on world markets for Ukrainian export commodities. Since then, Ukraine's economy has grown an average of 7% per annum and nominally surpassed 1990 levels in terms of industrial output. In recent years, sustainable economic growth has been underpinned by active investment, strong domestic demand and optimistic prospects for exports of raw materials.

4. The drought of 2003. A record-low crop of 20.2mn t of grain led to a shortage of fodder and a steep decline in cattle and dairy cows. The situation deteriorated even more because of growing exports of grain, as the Government dampened prices on the domestic market. The consequences of the 2003 drought are still being felt in the farm sector and in the economy as a whole today, because the trend towards declining beef output has not stopped. On one hand, this has given a push to expanding of poultry and pig breeding. On the other, the overly small output of meat and dairy is one of the factors spurring inflation at the moment.

5. World steel prices take off. High demand on the part of China pushed global prices for steel up 60% in 2004. Since steel products account for nearly 40% of Ukrainian exports, this had a decisive effect on Ukraine's GDP. At the same time, back in 2000, the country's steel industry was considered to be in such bad shape that the Government, not without the efforts of a powerful lobby, gave benefits and exemptions to enterprises in this sector. The steel industry will continue to be an important

sector in Ukraine's economy for a long time to come, given its competitiveness, especially due to the well-placed domestic resource base.

6. Privatization of KryvorizhStal.

In 2005, for the first time, the Government held a transparent and open privatization for a large state enterprise. The result was not only a record-high selling price of US \$4.8bn, but also an immediate improvement in the perception of Ukraine in the international business community, even despite the fact that this was actually a re-privatization. However, the State Property Fund did not manage to avoid scandalous, contradictory privatization deals after that.

7. Foreign capital and the financial sector. The sale of Bank Aval, the biggest Ukrainian bank, to Austria-based Raiffeisen Bank in 2005 was the beginning of the eager arrival of foreign banks on the Ukrainian market. The share of foreign capital in domestic banks grew from 9.6% in late 2004 to 35% by the end of 2007. This process fostered a surge in private lending, which has been growing 100% per annum for several years now. Still, consumer loans remain relatively expensive because of high demand and a high rate of inflation. Consolidation and competition among the 130 or so banks currently operating on the market should grow stronger for the foreseeable future.

8. The gas agreement in 2006. The new agreement between Russia and Ukraine resulted in annual price hikes for imported gas for the country, but it did not remove the opaque trading gas schemes that were suspected of corruption. The intermediary, RosUkrEnergo, became a sticking point for the Government both at home and in its relations with Russia. The gas agreement revealed a serious lack of a strategic vision for the country's gas system in the Cabinet. At the same time, it was a positive spur to improve energy efficiency and modernize the economy.

9. Residential services go up in 2006.

The rising price for imported natural gas forced local governments across all regions to raise regulated rates for heating and water supplies by 50–100%. The last significant review of such rates had taken place in 2000, when rates grew 40%. This situation drew public attention to the problems in this sector and the need to reform a sector that consumes one third of the country's gas. It also increased dissatisfaction among consumers over the persistently

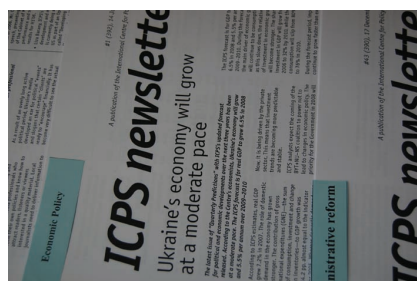
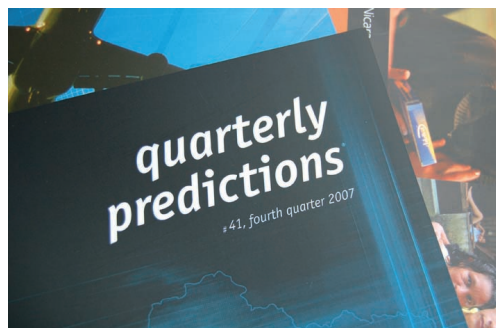
low quality of these services. Despite higher rates, most utility and building maintenance companies continue to be unprofitable and thus do not invest in modernizing their distribution systems or equipment.

10. Ukraine joins the WTO in 2008.

Ukraine completed 14-year-long

negotiations to accede to the WTO and was the first of the “Big Four” CIS countries to receive WTO approval. Since 1993, the year when talks began, Ukraine’s economy and the distribution and geography of its trade have significantly changed. The expected cancellation of trade restrictions and anti-dumping suits that once plagued the steel and chemical industries is no

longer so urgent or important for the country’s economic development. The significance of WTO membership lies not so much in increasing external trade as in improving the internal regulatory environment. The conclusion of a deep free trade agreement with the EU will be the next step in Ukraine’s integration with global economy.



Economic issues that are most popular among readers

Articles dedicated to ICPS economic forecasts are the most popular. Every quarter, the Newsletter familiarizes readers with the main points of Quarterly Predictions, the Centre’s core periodical distributed by paid subscription only. Newsletter issues dealing with economic matters are typically record-breakers for downloads. Articles dedicated to improving the quality of public services and features on an EU-Ukraine free trade area are also very popular among readers.

Table 1. Top Ukrainian Newsletter issues, by number of downloads

Nº	Title	Downloads
1.	World-class city government has arrived. Now it needs to be promoted (№308, 6 February 2006)	1,016
2.	A Ukraine–EU Free Trade Area: Who’s for and who’s against it? (№306, 23 January 2006)	715
3.	Ukraine still needs administrative reform (№250, 25 October 2004)	690
4.	Ukraine’s economy in 2005: What’s better now? (№314, 20 March 2006)	606
5.	Illegal migration in Ukraine (№312, 6 March 2006)	596
6.	Critical changes to Ukraine’s economic policy: Recommendations from Ukrainian and US experts (№300, 28 November 2005)	565
7.	Urban Ukrainians are unhappy with the quality of local government services (№257, 13 December 2004)	583
8.	ICPS is optimistic about Ukraine’s economic growth over 2005–2007 (№275, 4 May 2005)	554
9.	Behind the economic failures of 2005; The outlook for 2006–2007 (№304, 26 December 2005)	550
10.	What economic policy Ukraine needs: Recommendations to the Government (№348, 15 January 2007)	527

Table 2. Top English Newsletter issues, by number of downloads

Nº	Title	Downloads
1.	A Ukraine–EU Free Trade Area: Who’s for and who’s against it? (№306, 23 January 2006)	486
2.	The Growing Hryvnia: Reasons and Forecast (№279, 6 June 2005)	462
3.	Political parties need to revise their platforms before the 2006 VR elections (№264, 14 February 2005)	458
4.	Urban Ukrainians are unhappy with the quality of local government services (№257, 13 December 2004)	435
5.	World Trade Organization accession depends on the Verkhovna Rada (№284, 11 July 2005)	429
6.	NGOs can help Ukraine with European integration: Lessons from Estonia (№280, 14 June 2005)	427
7.	Illegal migration in Ukraine (№312, 6 March 2006)	422
8.	Legislative gaps make public oversight of government bodies difficult (№290, 19 September 2005)	409
9.	Is political will alone enough for irreversible democratic transformations? (№272, 11 April 2005)	395
10.	How to alleviate poverty in Ukraine: Tips from an experienced Slovak politician (№249, 18 October 2004)	387

Key political events in recent years

Political analyst **Ivan Presniakov** divides key political events in recent years into positive and negative.

Positive events

Truthfully, it is difficult to find significant positive political events prior to 2004. Winter 2004–2005 was Ukraine's richest period in terms of positive political events. These can be summed up under the name, Orange Revolution, although at least three separate events can be distinguished that significantly affected Ukraine's political system further on. Some more key improvements in the political system also took place afterwards.

1. The Orange Revolution. The main achievements of mass protests by ordinary Ukrainians against a rigged election and their success were two key changes: the country adopted the institution of democratic elections and the freedom of the press was entrenched, at least at the national level. The election campaigns held since 2005 showed that all Ukrainian politicians have largely accepted democratic elections as an accomplished fact and no longer think in terms of ballot-stuffing as a means of changing election results. In addition, all have recognized that total control of the press by the executive branch is impossible and have given up attempts to exercise that kind of control.



2. Constitutional reforms of 2004.

The adoption of amendments to the Constitution in December 2004 was another key positive event that took place during the Orange Revolution, although many politicians still question this achievement. Due to the high-pressure process involved, these amendments were not ideal, but they laid the foundation for structuring the Verkhovna Rada into an opposition and a coalition and increased the accountability of the Government and the legislature.

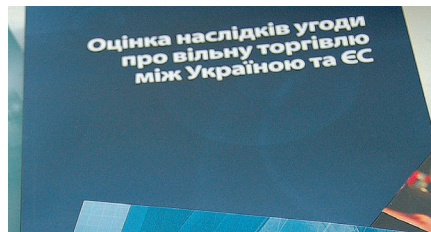
3. Proportional elections to the Verkhovna Rada. These changes were part of the 2004 Constitutional reform. The

institution of proportional elections cured such diseases as the large contingent of "independents" in an unstructured legislature, the means for the Office of the President to influence the Verkhovna Rada through "non-partisan" deputies, and so on. After two elections, however, the current proportional electoral system has raised certain problems for Ukrainian voters and it definitely needs further adjustments.

4. The 2006 Verkhovna Rada election.

The first regular elections after the Orange Revolution were an important event that proved that the institution of democratic elections works in Ukraine in a normal, consolidated manner. On the whole, the government managed to run fair elections, which significantly improved Ukraine's standing in most international ratings of democratization.

5. WTO accession and the beginning of talks on an FTA+. These two external political events represent the deeper achievements of the last few years. Ukraine finally reached political consensus regarding the imperative of European integration, a position shared by all Verkhovna Rada political forces. Old debates around "Europe or Russia" have exhausted themselves. Ukraine still needs to develop a consolidated position on participation in a collective security system.



Negative events

The majority of key negative events were related to the period before the Orange Revolution. However, recent political events give grounds for concern that democracy is not sufficiently entrenched in Ukraine today.

1. Kuchmagate. The 2000 scandal around Major Melnychenko's tapes of conversations between President Kuchma and senior officials revealed corruption in the highest echelons of Ukraine's government and provided evidence that the Presidential Administration of that time was directly involved in restricting press freedoms.

2. The Kolchuga sales scandal. Ukraine's reputation on the foreign political arena was jeopardized by allegations of illegal sales of missile systems to Iraq in 2002. The boss of the government's arms

export agency died under suspicious circumstances, but nothing was ever proved.

3. A national referendum on amending the Constitution. Initiated by President Kuchma in 1999, this referendum was supposed to change the Constitution by restricting the rights of the legislature and further strengthening the President. It mostly brought out the weakness of civil society organizations and the opposition, as well as immaturity of Ukrainian society itself in evaluating its own political system. In the end, it was seen as a fix and never enacted.



4. The 2004 Presidential campaign.

This election campaign reached new lows of thuggery, dirty tricks and vote manipulation. The public purse was substantially drained in the process of funding these excesses and Ukraine's 12%+ GDP growth fell to 8% overnight when pensions were suddenly raised. The first Yanukovich Government also manipulated Ukraine's foreign policy position. To please Russia, which was suspected of contributing to Yanukovich's campaign, the Government initiated accession to the Common Economic Area (CEA) and refused to promote membership in NATO. Ultimately, all these abuses led to the Orange Revolution

5. The 2007 political crisis and snap Verkhovna Rada election. This political crisis showed the immaturity of Ukraine's politicians and their inability to compete democratically, that is, within the limits of existing laws and regulations. Both the ruling coalition and the President regularly took unlawful steps, each side justifying its actions by the behavior of their opponents. The legitimacy of the Constitutional Court was also challenged.

Research that remains relevant

One of the main instruments for influencing democratization is independent research, that is, analytical reports that help political leaders and officials make quality decisions. The Centre's Newsletter regularly presents the key conclusions of ICPS studies on its pages. Alas, the Government and Ukraine's political parties, to whom these recommendations are most often addressed, do not always use them. Here is a list of handbooks, papers and reports written in recent years whose analysis and conclusions remain pertinent to Ukraine today



- **A Handbook on Public Policy for NGOs.** This handbook includes practical advice for community organizations in terms of organizing and carrying out the assignments required by public policy projects. It describes the procedures and formats for carrying out analytical and sociological research and consulting with stakeholders and also sets out the requirements and recommendations for organizing work within a project. This handbook can also be useful for government representatives who involve the community in their policy-making process.
- **Fiscal Decentralization in Ukraine in the Context of Local Government Reform.** This White Paper, prepared jointly by the Ministry of Economy, the National Security Council and ICPS, proposes a reform strategy aimed at raising the quality of public services.
- **A Model for Public Watch over Healthcare Spending.** This White Paper presents a practical model for public oversight of Budget spending on healthcare. The model, prepared

by specialists from the Euro-Balkan Institute (Macedonia), the Public Policy Research Center (Kazakhstan) and ICPS, provides the main requirements for a legislative and institutional base for public oversight, the publication of information, and the participation of NGOs in the mobilization of voters.

- **Improving Ukraine's migration policy mechanisms by disseminating EU experience with readmission treaties.** This White Paper proposes a vision of Government policy to combat illegal migration in Ukraine. The document that was developed by ICPS jointly with the Institute of Public Affairs (Warsaw) contains recommendations that institutional reform include amendments to legislation, the use of technical assistance, and proposals for specific policies and programs dealing with migration and border control. ICPS specialists propose answers to the immediate challenges of signing a Readmission Treaty with the EU: recommendations for setting up appropriate conditions for detaining illegal migrants, providing legal protection, and carrying out identification and deportation procedures.
- **Assessment of the impact of a Free Trade Agreement between Ukraine and the EU.** A report on the results of a project called "Consultations on a Free Trade Agreement between Ukraine and the EU" in which ICPS analysts study the possible impact of such an agreement on key sectors of Ukraine's economy and the positions of various stakeholders on such an agreement, and provide recommendations for talks between Ukraine and the EU.
- **Party Policy: The impact of NGOs on policy formation and implementation.** This handbook is based on the results of a project called

"The impact of NGOs on the formation and implementation of party policy" and presents methodology for analyzing, monitoring and evaluating the activity of local organizations of political parties, and instruments for community organizations to strengthen their impact on the formation and implementation of party policies.

- **Cultural policy in Ukraine. Humanitarian security. Language. Education.** This ICPS study touches on key areas of cultural policy in Ukraine and offers recommendations for how to formulate this kind of policy. In the modern world, the future of a state and society depend most of all on an effective cultural policy. Since gaining independence, Ukraine has failed to put together a cultural policy that its voters can either understand or support, a policy that works for the development of the country, the integrity of the nation and a worthy future in a global world.
- **The future of Ukraine's economy.** This report criticizes the country's current economic policy and proposes responses to the challenges of a globalizing world. The ability of a society to respond quickly to changes and to generate such changes determine that country's place in the modern world. Ukraine's main responses to globalization should be to switch to an innovative model of economic growth, to accede to the WTO, and to integrate with the EU.
- **Lessons in democracy: World practice and Ukraine.** This compendium of articles is intended to familiarize Ukrainian policy makers and the general public with Western democracy and the use of coalitions, oppositions, cohabitation, primaries, lobbying and the delegation of power.



The ICPS Newsletter as institutional memory

The Newsletter's content reflects the entire spectrum of the Centre's activities. ICPS works in a variety of areas and its experts and analysts implement projects, prepare regular publications, organize public debate on government policy, comment on domestic and international events, and provide consultations to the Centre's partners and clients.

The Newsletter typically reports on:

- intermediate and final results of ICPS projects;
- the conclusions of research;
- a synopsis of key issues in ICPS periodicals;
- debates and roundtable results;
- comments, articles and interviews with in-house experts.

Since its pages accumulate much key information, the Newsletter is frequently consulted when staff prepare project proposals, quarterly and annual reports, and roundtables.

**Table 3. What has the Newsletter written about?
Key events over 1999–2008**

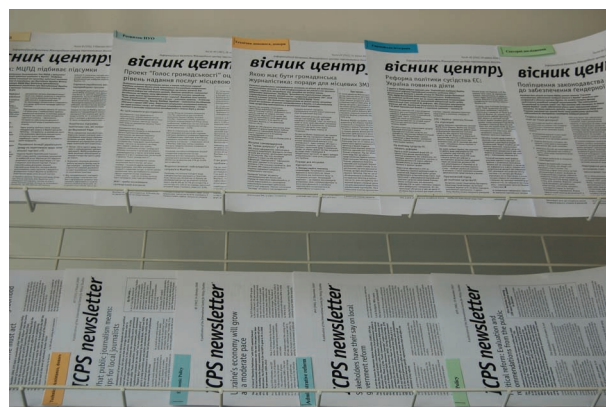
The "People's Voice" is launched to ensure voter input into strategic decisions through the institution of open Budget hearings, quality analysis of public services, and the involvement of the media in ensuring that these processes are transparent	1999	ICPS analysts continue monitoring, assessing and facilitating legislation that affects business activity
	2000	"Consumer Confidence," a quarterly report on the attitudes of the Ukrainian consumers, begins publication
Long-term training for Government policy analysts is set up under the direction of international consultants		
		The first commercial orders for customized research begin to come in
The Center's experience in policy analysis begins to be applied and the resulting methodology is tested in the process of setting up a new think-tank in Kazakhstan	2001	A series of projects is launched with the analytical support of Ukrtelecom, the national telecommunications operator
A new series of reports called "Regional Trends" begins to provide an in-depth look at Ukraine's regions	2002	
		ICPS starts a new form of cooperation with government agencies: secondment of its own experts to the Ministry of Foreign Affairs and Ministry of Economy. These individuals provide capacity-building assistance in relation to European integration issues
A new standard, that follows international standards, is developed for policy memo to draft laws		
	2003	The Centre launches its third periodical, the monthly Political Commentary
ICPS participates in the establishment of PASOS, an international network of think-tank in Central and Eastern Europe		
		ICPS begins to transfer its knowledge in NGO and think-tank development to organizations in Russia, Kazakhstan, Tajikistan, Moldova, Kyrgyzstan and Georgia
"People's Voice" goes into its second phase. Cooperation between local NGOs and local governments in 6 cities leads to better quality public service delivery	2004	In partnership with think tanks in Poland, Bulgaria, Estonia, Latvia, and other research-oriented NGOs in more than 20 CEE and FSU countries, ICPS is engaged in setting up a network of think-tanks that can carry out large-scale research and projects in the region

Work begins on evaluating Ukraine's socio-economic potential and developing indicators for the economy's growth. Guided by the Centre and international consultants, government officials learn to use benchmarking and other instruments for making such evaluations	2005	
		A two-year training program in public policy procedures is organized by ICPS. Government officials themselves prepare a series of 10 Green Papers and 10 matching White Papers, with the guidance of ICPS and its international partners
ICPS partakes actively in the development of a concept for the First Presidential Hearings		
	2006	President Yushchenko appoints ICPS Director Vira Nanivska President of the National Academy of Public Administration under the Office of the President of Ukraine
The Centre runs a series of consultations with stakeholders to prepare a strong position for the Ukrainian Government to negotiate with the EU over a Free Trade Area		
		The ICPS Supervisory Board elects a new Chair, former Polish President Alexander Kwasniewski
	2007	
Commissioned by ICPS, Socis, a center for social and political studies, with the support of the Institute of Sociology under the National Academy of Sciences, carried out a nation-wide survey called "Reforms, Business and Politics"		ICPS and the Ukrainian Construction Association began a series of roundtables. The goal of these roundtables is to draw on all stakeholders to develop proposals to tackle those problems that hinder the development of a civilized housing market in Ukraine and raise housing prices

Newsletter articles are re-printed by the press and cited by international organizations

ICPS materials are often re-printed by other printed or electronic media. In particular, English-language electronic publications Ukrainian Journal and Business New Europe (BNE) have used articles from the Newsletter, which is updated weekly on the ICPS website under "This Week's Topic."

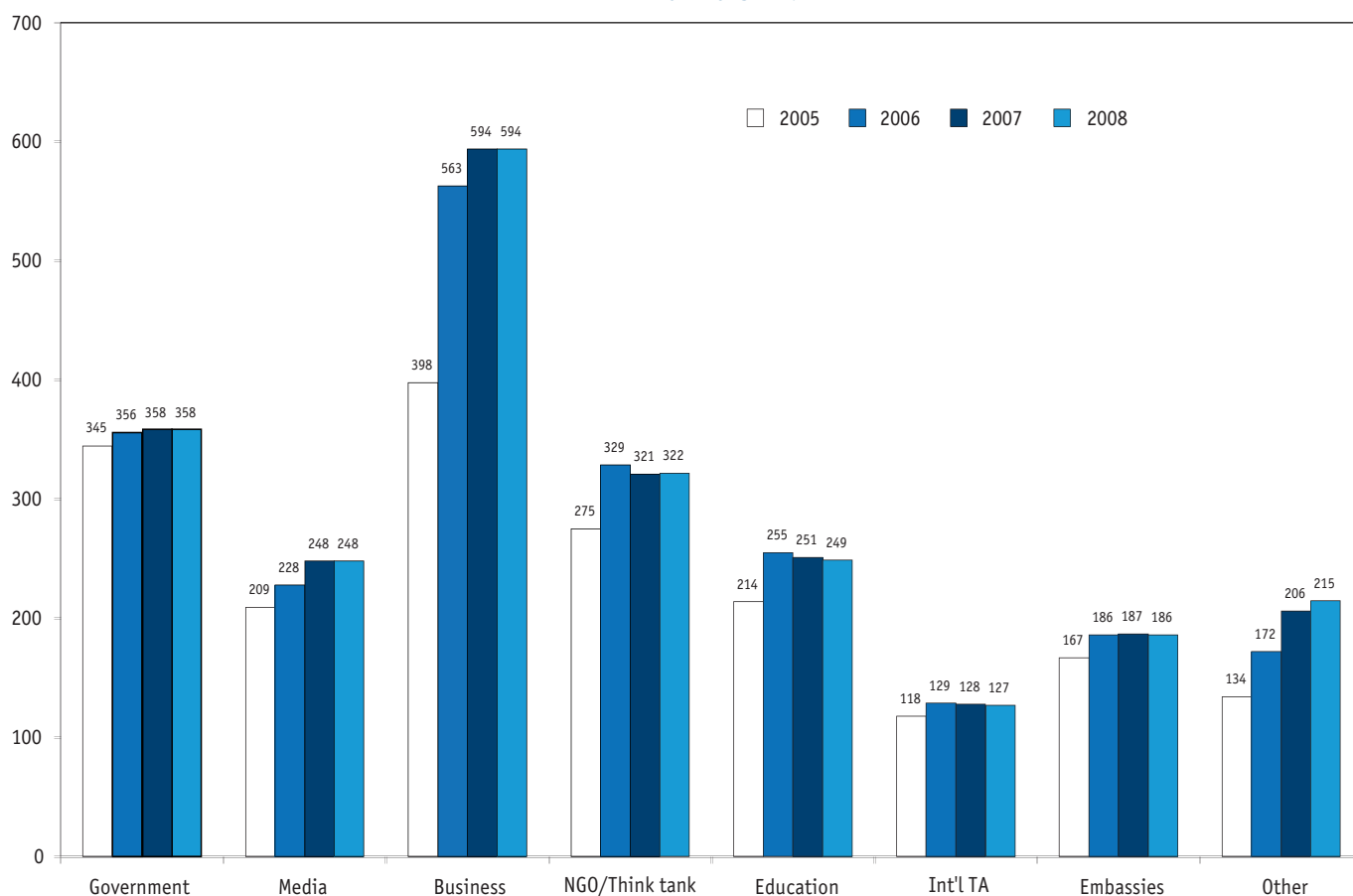
International organizations and rep offices also use the Newsletter. The latest example was when the Parliamentary Assembly of the Council of Europe (PACE) cited an article called "In search of a way out: How to find democracy in this political crisis" written by ICPS's political analysts and published in ICPS Newsletter #360. In their 17 April report entitled "The functioning of democratic institutions in Ukraine," PACE Ukraine observers Hanne Severinsen and Renate Wohlwend commented on the political crisis in Ukraine.



An instrument for popularizing ideas and individuals

ICPS project managers and analysts are interested in seeing more of their materials in the Newsletter, because it is mailed to more than 3,380 electronic addresses. This sizeable audience includes many institutions: from government and private sector managers to students and private individuals. First among subscribers are businesses. Second and third places are taken by government offices and NGOs and think-tanks. In fourth place are educational institutions and the press.

**Chart 1. Who reads the Newsletter?
Readers by key groups**



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